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OFFICE OF THE VICE PRESIDENT  
WASHINGTON

March 27, 1995

MEMORANDUM FOR MEMBERS OF THE PRINCIPALS COMMITTEE

FROM: LEON FUERTH *LF*

SUBJECT: Sanctions Policy

Sanctions enforcement is gradually degenerating. It is possible to combat this trend, but to do so requires commitment of assets. The attached paper provides a rundown of areas of slippage and proposed countermeasures.

More effective enforcement of sanctions within existing authorities can further isolate Pale and Knin and may help convince Milosevic that sanctions will continue to bite unless he can help bring about negotiated settlements in Bosnia and the Krajina. On the other hand, Russia and the EU seem to be more interested in trading sanctions for incremental steps towards peace, and the Front Line States are increasingly unwilling to bear the burden of sanctions.

The key question for the Principals to address, therefore, is whether, in terms of our overall strategy in the region, it makes sense for the U.S. Government to press the Western Europeans, Russia, and the Front Line States to strengthen sanctions enforcement as a way to push Milosevic and the Pale and Knin Serbs towards the sorts of negotiated settlements we seek.

The Principals could also review the specific points in the attached paper if there is time. If not, I recommend that the Principals remand those issues to the Deputies for decision and implementation.

Attachment:

Sanctions Options Paper

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SUBJECT: Sanctions Improvements -- Practical Steps

Sanctions fatigue has set in but in an unexpected way. Fatigue is most evident in the West where political will is flagging and the focus is on trading sanctions for incremental, often reversible, progress in negotiations. Front-line states are maintaining enforcement in proportion to the degree of cohesion they perceive in the West and the West's pressure on them to maintain effective sanctions enforcement. Unfortunately, even the U.S. Government's message has been inconsistent, with too little emphasis on the continued importance of sanctions.

Sanctions can still provide significant leverage by isolating Pale and Knin (the "Inner Ring" of sanctions) and convincing Milosevic (the "Outer Ring") that sanctions will continue to bite unless he can help bring about negotiated settlements in Bosnia and the Krajina. By making effective sanctions a priority and devoting increased resources to enforcement programs, the U.S. and the Western Europeans can increase pressure on Pale, Knin, and Belgrade within existing sanctions authority.

This memorandum lays out the components of a program for enhanced sanctions enforcement. Many of the steps should be matters of routine sanctions maintenance. However, given flagging Western European support for sanctions and extremely lax enforcement in certain key countries, significant progress is impossible unless the USG puts political weight behind its efforts.

## I. Main Problem Areas

### A. General

1. Flagging Western European support for the sanctions effort is our main obstacle. The EU has not made sanctions a priority in its relations with the front-line states. EU members have sought to weaken sanctions in the UN Yugoslavia Sanctions Committee, leaving the U.S. isolated. Greece and Italy are unwilling to comply with mandatory UN resolutions or even EU directives on sanctions. European governments are also slow to provide necessary resources and support for the sanctions program. (See item II. A.)

### B. Outer Ring

1. Fuel, the most critical commodity in both the outer and inner sanctions rings, continues to reach the FRY and the Bosnian Serbs. The main source of leakage is fuel from Italy and Greece entering the FRY from Albania. Significant smuggling also takes

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place across the Danube from Romania and from Greece and Bulgaria through FYROM. Romania has not fulfilled commitments to limit the amount of jet fuel supplied to empty Yugoslav airline (JAT) aircraft shuttling between Timisoara and Belgrade. Hungary has not controlled the "ant trade" of fuel smuggling in private cars and buses and auxiliary tanks on trucks. (See items II. B, C, and G.)

2. Cypriot, Russian, and Greek attitudes towards sanctions continue to create problems. Serbian firms in Cyprus, Russia, and Greece conduct business virtually unimpeded by sanctions, earning hard currency and arranging sanctions-busting trade. Cyprus has proven unwilling to take effective enforcement measures. Russia has yet to pass laws necessary to bring sanctions into effect, and existing decrees are not meaningfully enforced. Russian trade and economic cooperation with Serbia continues. Russia has also taken positions in the Sanctions Committee that prevent closing loopholes. (For example, several of the front-line states will not take stronger steps to control cross border traffic without instructions from the Sanctions Committee, but Russia has blocked Committee action.) Serbian activities in Greece, especially Thessaloniki, continue to flourish. (See item II. D.)

3. Serbian exports through Macedonia of manufactured and agricultural products earn hard currency and support barter trade. Imports via FYROM keep key industries moving. The Macedonian government has no meaningful controls in place at the border with Serbia, and Serb-origin shipments regularly receive false documentation as Macedonian products. FYROM's neighbors -- Albania, Bulgaria, and Greece -- shrug off responsibility for FYROM's trade with Serbia, even though the bulk of goods involved transit, and often originate on, their territory. (See item II. C.)

C. Inner Ring

1. FRY implementation of its border closure with Bosnian Serb-held territory has declined significantly since its high point before renewal of limited sanctions relief in January. At the same time, the ICFY monitoring mission is in financial crisis. ICFY has already cut staffing, and Owen and Stoltenberg threaten to shut down the mission altogether if financial problems are not solved. The U.S. and EU must provide the resources necessary to restore ICFY effectiveness. However, these resources will be wasted, and the ICFY mission's hard work will have no meaning, unless the international community is willing to take a hard line in response to clear Serbian testing at the inter-Serb border. On the other hand, revocation of Phase

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I sanctions relief could cause Milosevic to end his embargo of the Bosnian Serbs altogether. (See item II. E.)

2. The "back door" remains a major source of supply for Pale and Knin Serb forces. Fuel, military supplies and other goods transiting the Dalmatian coast reach Bosnian Serbs through Croat-controlled (and maybe even Muslim-controlled) territory in Bosnia. Diversions to and exports from the Bosnian Serbs through the UNPAS could become a major loophole if economic confidence building measures between Zagreb and the Krajina Serbs are not accompanied by requisite sanctions control. Already there is evidence that goods shipped on the Zagreb-Belgrade highway are diverted to/from Bosnian Serb-held territory. There are only seven Sanctions Assistance Monitors (SAMs) in Croatia -- not enough to cover the Zagreb-Belgrade highway on a 24-hour basis or to monitor commerce through Dalmatia. (See item II. F.)

## II. Proposed Actions

A. Establish a united front with Western Europeans on both inner and outer ring sanctions. Take joint and bilateral action to maintain and improve sanctions enforcement. Ensure that front-line state governments understand that sanctions remain an important part of the West's strategy toward the former Yugoslavia and that their performance on sanctions matters to us.

- U.S. officials at every level should stress the importance of sanctions in all appropriate fora. Failure to do so sends the message that sanctions no longer count.
- The USG should press for a U.S.-EU mission to the front-line states to discuss the need for strict implementation and recognize instances of good performance. U.S. Ambassadors to EU and front-line countries should regularly brief host governments on sanctions issues.

B. Control oil smuggling through Albania to the FRY.

- Get the EU to join in pressing Italy and Greece to control oil shipments to Albania through a pre-verification system that allows shipments to legitimate Albanian end users only.
- Jointly press Albania to do a better job.
- Have the NATO-WEU force (SHARP GUARD) cooperate with Albania in stopping oil tankers that have not been pre-verified (may require a change in the current UN mandate).

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C. Persuade FYROM to limit trade with Serbia, and get other countries to control shipments to and from FYROM.

- Press Albania and Bulgaria to cooperate with SAMs to help monitor their trade with FYROM, since much of the FYROM-Serbia trade enters or exists via Albania and Bulgaria.
- Press the EU to do a better job of controlling its trade with FYROM since a substantial portion of FYROM "exports" actually comes from Serbia. (This complements the action above and helps alleviate the burden on Albania and Bulgaria. Serbian exports can be identified, tracked, and caught at the final destination.)

D. We and the EU press Russia, Cyprus, and Greece to control FRY-interest firms operating in their territory and to stop other practices that violate sanctions regulations. We and the EU press Russia and Greece to desist from taking positions in the UN and EU that undermine the effectiveness of the sanctions regime.

E. Decide whether and how specifically to signal that the USG might oppose continuation of Phase I sanctions relief after the current UN resolution expires on April 22.

- Decide whether the U.S. should seek immediate revocation of Phase I sanctions relief if the ICFY mission ceases operation because of financial problems.
- Decide how strongly to protest specific violations of the border closure.

F. Close the "back door" to Pale, starting small by building on what the SAMs have already accomplished in Croatia and on their good relations with the GOC.

- Re-deploy 10-12 U.S. SAMs to Croatia so that the SAM-Croatia can cover the Zagreb-Belgrade highway 24-hours a day.
- Press other SAM donors to bring SAM-Croatia up to 30-35 monitors to cover loading of humanitarian supplies in Zagreb and to re-institute cooperation with Croatian customs on the Dalmatian coast to help prevent shipments of goods to the Bosnian Serbs via Federation territory.
- Provide training and technical assistance for Croatian and Federation Customs. (By helping the GOC and Federation to create the wherewithal to control trade on their borders, we

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are also contributing to an important aspect of their national sovereignty.)

G. Tighten enforcement of cross-border trade at the outer ring.

- Press Hungary to control the ant trade and to limit the amount of fuel that trucks can carry into Serbia. Prevent empty trucks from entering Serbia (a major source of smuggled fuel).
- Obtain agreement of EU governments to inspect and seal -- at loading -- UN authorized shipments bound for the FRY. (Almost all authorized shipments for the FRY originating in Western Europe cross at two sites in Hungary. A pre-inspection system would greatly reduce the burden on Hungarian customs and SAMs, thus freeing resources needed to counter smuggling.)
- Press Romania to control the ant trade in fuel, stop the FRY from importing aviation fuel via flights of empty JAT airliners to Timisoara, and stop supplying electricity to the FRY.

H. Resolve outstanding sanctions issues in ways that reinforce the overall sanctions regime.

- Seek front-line state cooperation on implementing a transit route for perishable agricultural products around Serbia as an alternative to pending requests for transit corridors through Serbia. Work with Bulgaria and other front-line States to address overall land transit issues as part of a comprehensive approach that identifies needed enforcement improvements as tradeoffs.
- Identify conditions under which Serb-owned vessels engaged in cabotage (internal trade) can use the Romanian side of the Iron Gates locks while the Serb locks are under repair. Conditions might include ending illegal Danube tolls and other interference with Danube shipping.

I. Decide whether the U.S. should modify its own sanctions regulations to implement Phase I sanctions relief through the sale of repair parts for U.S.-built aircraft being flown by JAT and/or allowing U.S.-FRY sports and cultural contacts.

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